Grain Transportation Partnership

Meeting The Needs Of Saskatchewan Producers And Rural Communities

SUMMARY

A Saskatchewan Government
Discussion Paper
March, 1991

Saskatchewan

Saskatchewan
Highways and
Transportation

Hon. Sherwin Petersen
Minister Responsible

GRAIN TRANSPORTATION PARTNERSHIP

MEETING THE NEEDS OF SASKATCHEWAN PRODUCERS AND RURAL COMMUNITIES

SUMMARY

91-05687/

INTRODUCTION

An effective grain transportation system is critical for maintaining the competitive position of producers on world markets and supporting agricultural development and diversification initiatives in rural Saskatchewan.

Changes to the grain transportation system could have a significant impact on Saskatchewan producers and rural communities.

The Saskatchewan Government is committed to maintaining a system that protects rural Saskatchewan by encouraging diversification, decentralization, and local decision-making.

Saskatchewan's economic well-being is vitally linked to having an effective agricultural transportation system that minimizes freight costs to producers and contributes to sustained growth of the agricultural economy.

A Grain Transportation Partnership based on decentralized decision-making involving all stakeholders is required to effectively meet the needs of producers and rural communities. This will guarantee that any benefits from system efficiency improvements are passed on to Saskatchewan producers and their communities.

GRAIN TRANSPORTATION PARTNERSHIP presents issues and options associated with rationalization of the grain handling and transportation system, and proposes a process for dealing with these issues that involves all stakeholders. The discussion paper should not be considered a policy document or a plan of action by the Saskatchewan Government. Instead, the primary goal is to foster dialogue and commitment to greater public involvement in the decision-making process for potential changes in the grain transportation system.

OPTIONS FOR THE GRAIN COLLECTION SYSTEM

The Saskatchewan Government is committed to maintaining an effective grain handling and transportation system from the farm gate to export position.

Co-ordinated planning of rail and road networks on a regional basis would reduce overall grain transportation costs from farm to port. This will protect producers and support agricultural development and diversification initiatives in rural Saskatchewan.

Development of alternatives to conventional rail service on grain-dependent branch lines can increase the options available to producers to market their grain. In addition, new employment opportunities would be generated in rural communities to help offset the shift of population from rural to urban areas.

Alternatives to abandonment of low volume branch lines include short-line railroads, off-line elevators, and other options such as custom trucking and producer cars.

Short-line railroads may provide a viable alternative to conventional rail service and trucking grain. Investments in short-line railroads can be justified when their fixed and variable costs are less than those of conventional rail service or the commercial trucking rate to delivery points on operating rail lines, plus incremental road costs generated by increased grain truck traffic.

The operation of off-line elevators may provide a viable grain collection option in some cases. This alternative enables producers to continue delivering grain to the same location after rail service has been withdrawn.

Assessment of the economic benefits of operating off-line elevators must balance the savings associated with rail line abandonment against the additional cost of trucking to the nearest transfer point, the road impact of the additional traffic, and the second elevation charges.

Several grain companies have introduced custom trucking in areas where primary elevator facilities have been closed. Under this option, the grain company negotiates a volume discount commercial truck rate with a local trucking company or other carrier to haul grain to its facilities. The producer arranges through the grain company to have his grain picked up at his farm by the carrier designated by the company.

This option could result in an increase in road construction and maintenance costs for municipal and provincial road authorities, if grain hauling distances and truck volumes on certain roads increase.

Producers have the option of loading producer cars to ship their grain when primary elevators are closed. Following applications by producers to the Canadian Grain Commission, the Grain Transportation Agency allocates cars directly to producers.

Alternatives to rail line abandonment should be examined to provide Saskatchewan producers with convenient and affordable access to delivery points.

Alternative grain collection services can also strengthen rural communities through the provision of local goods and services to replace the loss of railway and grain elevator services and jobs.

PUBLIC INVOLVEMENT IN REGIONAL TRANSPORTATION PLANNING

The Saskatchewan Government believes that decisions on Saskatchewan grain transportation issues should be made in Saskatchewan. Direct involvement of producers and provincial and municipal governments in grain transportation planning is required, to ensure that any changes are responsive to the needs of producers and rural communities. Local decision-making will guarantee that the benefits from productivity improvements are passed on to Saskatchewan producers and their communities.

Decision-making has to be co-ordinated and decentralized on a regional basis to develop appropriate grain collection systems that meet producer needs, while reducing overall system costs. Greater public involvement in the grain collection rationalization process can encourage changes that are fair and equitable.

Co-ordinated regional planning of rail line closures and municipal and provincial road networks will be essential to protect the interests of producers and rural communities.

Advisory groups including representatives from municipal government organizations and other stakeholders could be established to facilitate co-ordinated planning of roadway improvements and alternative grain collection services on a regional basis.

Advisory groups could develop regional grain transportation plans for areas that would be affected by rail line and elevator closures.

Grain collection options that meet the needs of stakeholders affected by branch line abandonment could be identified by the advisory groups. Technical assistance could be provided by the Saskatchewan Government and consultants with expertise in grain transportation issues.

This would facilitate the development of cost-effective regional grain transportation systems.

Recommendations from this planning process could be made to municipal and provincial governments and the private sector, to assist them in developing and maintaining rail and road systems.

Recommendations could be communicated by the Saskatchewan Government to the federal Minister of Transport, prior to the issuing of rulings by the National Transportation Agency on branch line abandonment applications.

Input from advisory groups can be accommodated without changes in the existing regulatory framework under the National Transportation Act. Alternatives to conventional rail service could be assessed on a regional basis prior to the commencement of branch line abandonment procedures by the National Transportation Agency, to assist the decision-making process.

FUNDING OF REGIONAL GRAIN TRANSPORTATION SERVICES

Innovative funding mechanisms will be required to implement the recommendations of advisory groups and modernize the grain collection system. Rationalization of the grain collection system will put additional burdens on the municipal and provincial road networks.

Incremental road upgrading and maintenance costs resulting from increased grain hauling by truck following the abandonment of rail lines could be financed through new cost-sharing arrangements involving different levelsof government. Financing of alternative grain collection services will also require new funding approaches to make them viable.

Current public expenditures on road and rail networks are adequate to develop and maintain an effective grain collection system.

The Saskatchewan Government favours funding options that reallocate transportation infrastructure expenditures to reduce overall system costs, without transferring costs from the federal government to provincial and municipal governments.

This could include directing existing federal, provincial, and municipal funding for rail and road systems into regional pools of transport infrastructure investment, to finance grain collection initiatives in specific regions.

RAIL FREIGHT RATES

The Saskatchewan Government supports retention of the distance-based WGTA rate-structure, which is designed to allow equal rates for equal distances.

All producers should have access to convenient and affordable grain collection services to market their grain, similar to the pricing mechanisms for other essential rural services such as electricity and telephones.

The share of freight costs paid by producers is expected to rise under the WGTA rate structure, due to the effects of inflation and increasing grain export volumes. Certain sections of the WGTA are designed to protect producer freight rates from inflationary pressures and low grain prices.

The shipper share limitation adjustment and inflation-sharing arrangements under the WGTA help stabilize producer returns. These provisions must be retained, to maximize returns to producers.

There should also be no ceiling on grain export volumes eligible for transportation subsidies, to protect producer income and stabilize the rural economy.

CRITERIA FOR RATIONALIZATION OF THE GRAIN HANDLING AND TRANSPORTATION SYSTEM

Rationalization of Saskatchewan grain-dependent branch lines during the 1990s could have significant social and economic implications for producers and rural communities.

New grain collection initiatives should balance the priority given to reduction in overall system costs with the need to maximize producer returns and maintain the stability of rural communities.

The Saskatchewan Government believes that potential changes in the grain handling and transportation system should be guided by the following criteria, to ensure that the benefits are equitably distributed:

a) Reduction in overall grain handling and transportation costs from the farm gate to export position.

b) Protection of rural communities through support for alternatives to rail line abandonment. Effective grain collection systems should be provided through appropriate investments in rail and road systems and new transportation technologies.

c) Consideration of regional differences in transportation infrastructure in the grain collection rationalization process, to facilitate convenient and affordable access for producers to delivery points.

d) Decentralization of decision-making for the grain collection rationalization process, to foster greater public involvement in grain transportation planning.

e) Provision of appropriate compensation to producers and other system stakeholders negatively affected by the abandonment of grain-dependent branch lines.

f) Maximization of returns to producers.

g) Consistency with international trade rules.

The Saskatchewan Government is committed to developing an effective grain handling and transportation system based on these principles. The uniqueness of our grain collection system and the diverse needs of Saskatchewan stakeholders will require innovative policy initiatives to satisfy these criteria, with or without fundamental changes in the WGTA.

CONCLUSIONS

The Saskatchewan Government is committed to maintaining an effective grain handling and transportation system from the farm gate to export position, to protect producers and support agricultural development and diversification initiatives in rural Saskatchewan. Co-ordinated planning of rail and road networks on a regional basis would reduce overall transportation costs from farm to port.

New policy initiatives by the federal, provincial, and municipal governments can facilitate the development of alternatives to rail line abandonment, through appropriate investments in rail and road systems and new grain collection and handling technologies.

Decentralization of decision-making through greater public involvement in the grain collection rationalization process would ensure that grain transportation planning effectively meets the needs of producers and rural communities.

The proposals by the Saskatchewan Government for improving the effectiveness of the grain collection system would transfer more of the benefits from system efficiency improvements to producers and rural communities. The Saskatchewan Government favours options that reallocate expenditures to achieve cost reduction, without transferring costs from the federal government to provincial and municipal governments.

The ultimate success of initiatives to increase the effectiveness of the grain handling and transportation system will depend upon greater decentralization and public involvement in grain transportation planning. The federal government, the railways, and the grain companies must be willing to share responsibility with producers and provincial and municipal governments for decision-making.

GRAIN TRANSPORTATION PARTNERSHIP provides a framework for greater public involvement in grain transportation planning. Local decision-making can effectively meet the needs of producers and rural communities by guaranteeing that the benefits are passed on to them.

A more decentralized decision-making process based on a partnership of all stakeholders would protect rural Saskatchewan and contribute to sustained growth of the agricultural economy.

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Minister Responsible

Minister of
Highways and
Transportation

SASKATCHEWAN

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March 13, 1991

I am pleased to release the Saskatchewan Government's discussion paper, **GRAIN TRANSPORTATION PARTNERSHIP**, to encourage dialogue on grain transportation issues.

Changes to the grain transportation system could have a significant impact on Saskatchewan producers and rural communities. The discussion paper outlines options for improving the grain handling and transportation system, to effectively meet the needs of Saskatchewan producers and rural communities.

The Saskatchewan Government is committed to maintaining a grain transportation system that protects rural Saskatchewan by encouraging diversification, decentralization, and local decision-making. Our government believes that decisions on Saskatchewan grain transportation issues should be made in Saskatchewan, to ensure that any benefits from changes are passed on to producers and their communities.

GRAIN TRANSPORTATION PARTNERSHIP provides a framework for greater public involvement in grain transportation planning. A more decentralized decision-making process would contribute to the development of effective regional grain transportation systems. This would provide all producers with access to convenient and affordable grain collection services to market their grain.

I look forward to hearing the views of Saskatchewan producers, rural municipalities, and other stakeholders on options for developing a grain transportation system that is responsive to local needs and opportunities. This will assist the Saskatchewan Government in formulating a provincial position for federal-provincial discussions on grain transportation issues.

Yours sincerely,

Sherwin H. Petersen
Minister of Highways and Transportation

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GRAIN TRANSPORTATION PARTNERSHIP

MEETING THE NEEDS OF SASKATCHEWAN PRODUCERS AND RURAL COMMUNITIES

I SUMMARY

The grain handling and transportation system can contribute to enhanced competitiveness of Saskatchewan producers on world grain markets through policy initiatives that encourage co-ordinated grain transportation planning from the farm gate to export position.

Changes to the grain transportation system could have a significant impact on Saskatchewan producers and rural communities.

The Saskatchewan Government is committed to maintaining a system that protects rural Saskatchewan by encouraging diversification, decentralization, and local decision-making.

Decentralization of decision-making for potential changes in the grain transportation system can reduce overall system costs from farm to port, by allowing regional differences in transportation infrastructure and the agricultural economy to be addressed. Co-ordinated regional planning of rail and road networks can effectively meet the needs of Saskatchewan producers and rural communities by facilitating appropriate investments in grain collection systems.

New policy initiatives by the federal, provincial, and municipal governments can encourage the development of alternatives to rail line abandonment that maximize returns to producers, by transferring more of the benefits of system efficiency improvements to producers and their communities. Alternative grain collection services can generate new employment opportunities in rural communities and support agricultural development and diversification initiatives.

Advisory groups including representatives from municipal government organizations and other stakeholders could be established to facilitate co-ordinated planning of roadway improvements and alternative grain collection services on a regional basis.

Input from advisory groups can be accommodated without changes in the regulatory framework under the National Transportation Act. Alternatives to conventional rail service on grain-dependent branch lines could be assessed prior to the commencement of abandonment procedures by the National Transportation Agency, to assist the decision-making process.

Innovative funding mechanisms will be required to implement the recommendations of advisory groups and modernize the grain collection system. The Saskatchewan Government favours funding options that reallocate transportation infrastructure expenditures to reduce overall system costs, without transferring costs from the federal government to provincial and municipal governments. This could include directing existing federal, provincial, and municipal funding for rail and road systems into regional pools of transport infrastructure investment, to finance grain collection initiatives in specific regions.

The Saskatchewan Government supports retention of the distance-based rail freight rate structure under the Western Grain Transportation Act (WGTA), which is designed to allow equal rates for equal distances. All producers should have access to convenient and affordable grain collection services to market their grain, similar to the pricing mechanisms for other essential rural services such as electricity and telephones.

Certain sections of the WGTA are designed to protect producer freight rates from inflationary pressures and low grain prices. The shipper share limitation adjustment and inflation-sharing arrangements under the WGTA help stabilize producer returns. These provisions must be retained, to maximize returns to producers.

There should also be no ceiling on grain export volumes eligible for transportation subsidies, to protect producer income and stabilize the rural economy.

The success of initiatives to modernize the grain handling and transportation system will depend on the willingness of the federal government, the railways, and grain companies to share decision-making responsibility with producers and provincial and municipal governments.

The Saskatchewan Government discussion paper presents issues and options associated with rationalization of the grain handling and transportation system, and proposes a process for dealing with these issues that involves all stakeholders. The discussion paper should not be considered a policy document or a plan of action by the Saskatchewan Government. Instead, the primary goal is to foster dialogue and commitment to the development of a grain collection rationalization process based on decentralized decision-making.

GRAIN TRANSPORTATION PARTNERSHIP provides a framework for greater public involvement in grain transportation planning. Local decision-making can effectively meet the needs of producers and rural communities by guaranteeing that the benefits of changes in the grain transportation system are passed on to them. A more decentralized decision-making process based on a partnership of all stakeholders would protect rural Saskatchewan and contribute to sustained growth of the agricultural economy.

II INTRODUCTION

An effective grain handling and transportation system is essential for facilitating the movement of Saskatchewan grain to export and domestic markets. The WGTA is designed to compensate the railways for grain handling and transportation costs, and ensure the long-term viability of the rail system in western Canada.

Rationalization of the grain handling and transportation system has accelerated in recent years due to abandonment of low volume grain-dependent branch lines by the railways and continuing consolidation of primary elevators by grain companies.

Limited opportunities for increasing revenues from low volume lines with the distance-based WGTA freight rate structure have led the railways to divest more of these lines, in order to reduce cross-subsidization by high volume lines. The grain companies have also moved to close their least efficient elevators and replace them with high throughput elevators or refurbish selected elevators, to increase profit margins.

For example, nine Privy Council Orders-in-Council (Orders) prohibiting abandonment of Saskatchewan branch lines until the year 2000 were rescinded in July, 1990, in response to a proposal by Canadian National Railways (CN) and CP Rail that was supported by grain companies with unprofitable elevators on these lines. Rescinding of these Orders, combined with provisions in the National Transportation Act, give the railways the authority to abandon these lines in 1991.

This initiative is part of the railways' stated objective of abandoning 40 per cent of their total rail networks in coming years. It is estimated that more than 50 per cent of Saskatchewan's railway system, primarily low volume branch lines, could be eliminated in the process.

Reductions in grain transportation subsidies under the WGTA were proposed by the federal government during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). Failure to reach an agreement on reduction of agricultural subsidies will likely intensify downward pressure on world grain prices in the short to medium term. Negotiations scheduled for 1991 will re-evaluate options for reducing agricultural subsidies.

On the other hand, a prospective GATT agreement on agricultural subsidies could lead to further rationalization of the grain handling and transportation system, if changes in the method of payment of the Crow Benefit were required to meet Canada's international trade obligations. The federal government's commitment to deficit reduction is also a factor in Canada's support for reduction or elimination of grain transportation subsidies under the WGTA.

In reviewing options for system rationalization, it is essential that the entire grain collection, handling, and transportation system — from the farm gate to export position — be taken into consideration.

This is not just a question of rationalizing the rail and elevator systems, but includes costs

associated with other components of the grain handling and transportation system such as farm trucking, road impacts, and investments in port capacity.

For example, as more grain-dependent branch lines are abandoned and primary elevators are closed, producers will have to haul grain longer distances by truck to delivery points. Mitigation of road impacts generated by rail line abandonment could require major expenditures for roadway improvements, which could severely strain the financial resources of municipal and provincial governments in the absence of appropriate compensation arrangements.

In addition, opportunities to develop new grain collection and handling systems such as short-line railroads and off-line elevators are being examined to determine whether they represent viable alternatives to abandonment of low volume grain-dependent branch lines.

Current regulatory procedures for dealing with branch line rationalization focus on the grain handling and transportation system beginning at grain delivery points, not the farm gate. As a result, agricultural producers and provincial and municipal governments are not directly involved in the decision-making process for branch line abandonment.

In order to develop a more cost-effective grain handling and transportation system beginning at the farm gate, representatives of these groups should have an opportunity to actively participate in the grain collection rationalization process.

Greater decentralization through more public involvement in local decision-making would facilitate co-ordinated planning of regional grain collection systems.

The Saskatchewan Government believes that a co-operative process involving all stakeholders can ensure that the grain transportation system effectively meets the needs of Saskatchewan producers and contributes to the stability of rural communities.

III GRAIN TRANSPORTATION AND THE CHANGING AGRICULTURAL ECONOMY

The grain handling and transportation system plays an important role in agricultural development and diversification, due to Saskatchewan's distance from ports and the need to minimize transportation costs for agricultural products to maintain their competitiveness on world markets.

Rail transportation will continue to be the primary mode for bulk shipments of grain to export markets. Increased demand for Canadian grain in Pacific Rim markets has shifted the east-west split of rail traffic in favour of westbound during the past decade. Approximately 60 per cent of Canadian grain exports are now handled through west coast ports, compared with about 40 per cent in the early 1980s.

Upgrading of the western rail system, combined with the addition of new grain terminal capacity in Prince Rupert and Vancouver, have increased the capacity and efficiency of Saskatchewan's mainline connections to the west coast. Terminal elevator facilities at Thunder Bay, Churchill, and St. Lawrence ports continue to handle eastbound shipments.

All Canadians — not just the residents of Saskatchewan and the other Prairie provinces — have a stake in developing initiatives to modernize the grain handling and transportation system, because of the important role agriculture plays in the Canadian economy.

Agricultural exports represent about 6 per cent of total merchandise exports, and the net balance of trade in agricultural products has historically been positive.

Saskatchewan agricultural exports, which totalled $2.2 billion in 1989, contribute significantly to the trade surplus in the agriculture sector. Saskatchewan exports more than 80 per cent of its total agricultural production, with grain exports averaging 15.5 million tonnes annually.

Trends in the Agricultural Economy

Saskatchewan is Canada's leading producer of grains, accounting for about 55 per cent of total grain exports and half of total grain producers in the Prairie provinces.

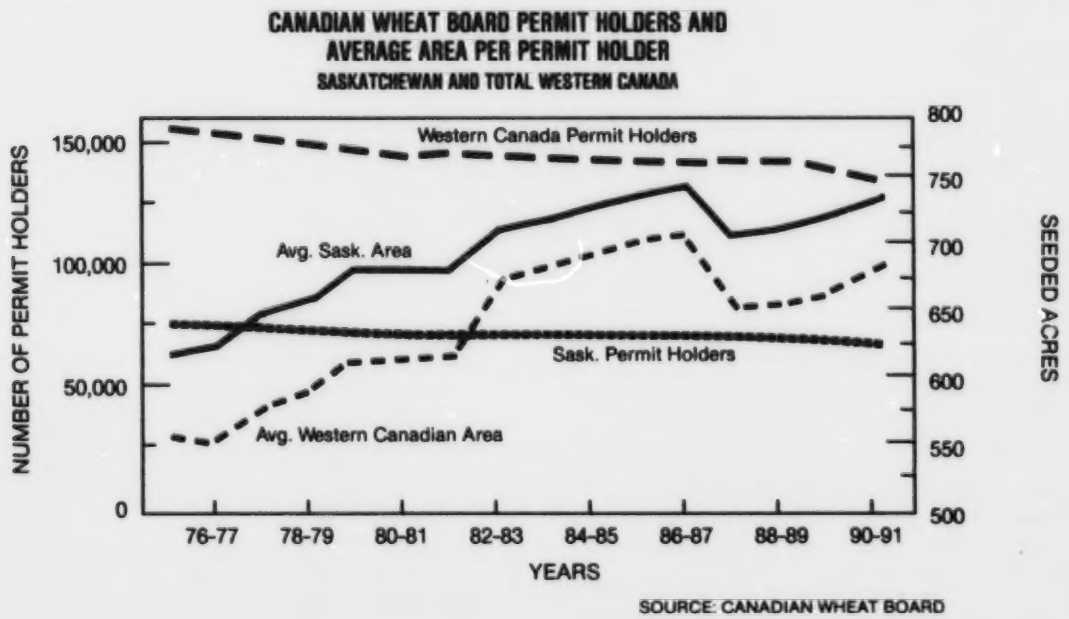
The number of Canadian Wheat Board (CWB) permit holders in Saskatchewan has declined by more than 10 per cent in the past 15 years, from 75,600 in 1975 to 67,300 today. The number of permit holders has declined at a greater rate in Manitoba and Alberta, with Manitoba having experienced a decline of more than 20 per cent since 1975.

The number of seeded acres cultivated by Saskatchewan producers under the CWB quota system has increased by about 6 per cent during the 1975 - 1990 period, from 46.8 million acres to 49.4 million acres. Seeded acreage in the other Prairie provinces has also grown, increasing total seeded acres to 91.6 million, up 6 per cent from 1975. Saskatchewan's share of total seeded acreage has remained unchanged at about 54 per cent.

The decrease in the number of permit holders, combined with the increase in total quota area, has resulted in an increase in the average area per permit holder. The average area for Saskatchewan producers has increased by about 20 per cent in the past 15 years, from 620 acres in 1975 to more than 730 acres in 1990. Average farm size has increased from about 920 acres in 1975 to 1,050 acres today. The trend toward fewer but larger farming operations has also occurred in the other Prairie provinces (see Figure 1).

Annual crop production fluctuates significantly, primarily due to the effects of climatic conditions on yield levels. The instability of world grain markets also affects production decisions. Average production volume in Saskatchewan is about 18 million tonnes annually, with considerable variations occurring in recent years — from a low of 12 million tonnes in 1988 to more than 24 million tonnes in 1990.

Figure 1



The variability of crop production has a major impact on farm incomes. In addition, farm incomes have been adversely affected by the volatility of grain prices. The average Saskatchewan farm gate price for wheat of $115 per tonne is currently less than one-third of the 1980 level in real terms. Realized net farm income in Saskatchewan has been negative every year since 1985, excluding government ad hoc payments to producers.

Producers have also experienced increases in farm input costs during the past decade, which has intensified the cost/price squeeze in grain farming operations and put downward pressure on farm incomes. Average farm operating expenses increased by about one-third during the 1980s, despite the decline in commodity prices and fluctuations in farm income levels.

Grain freight costs paid by Saskatchewan producers also increased during the 1980s, which has further contributed to the cost/price squeeze (see Figure 2).

The average freight rate that the producer pays has increased by 39 per cent since the WGTA was introduced in 1984, from $7.70 per tonne to $10.70 per tonne.

The share of freight costs paid by producers is expected to rise under the WGTA freight rate structure, due to the effects of inflation and increasing grain export volumes.

Supporting Rural Communities

The Saskatchewan Government is committed to maintaining a grain transportation system that protects rural Saskatchewan by encouraging diversification, decentralization, and local decision-making.

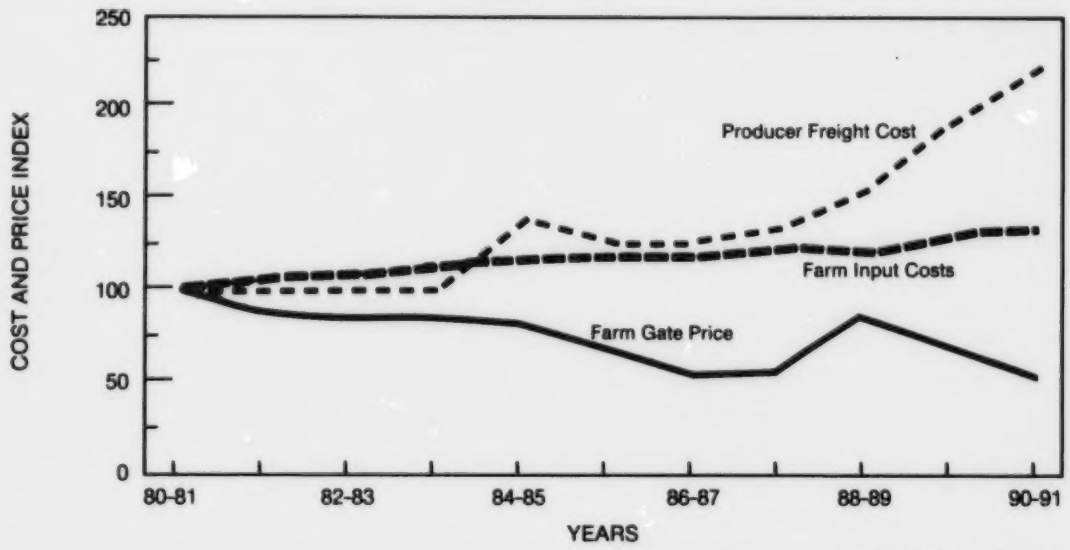
Development and modernization of the grain transportation system can help offset instability in Saskatchewan rural communities caused by the shift of population from rural to urban areas. Alternatives to conventional rail service on grain-dependent branch lines can generate new employment opportunities and other economic activities in rural communities.

Opportunities exist to alleviate the impact of freight cost increases and the cost/price squeeze through encouragement of grain collection options that transfer more of the benefits from system rationalization to producers and rural communities. Alternatives to rail line abandonment can

Figure 2

TRENDS IN AVERAGE FARM COSTS AND PRICES

(1980-81 = 100)



SOURCE: SASKATCHEWAN AGRICULTURE AND FOOD; GRAIN TRANSPORTATION AGENCY

help contain increases in producer transport costs through more convenient and affordable access to delivery points.

Effective grain collection systems will be required to support agricultural development and diversification initiatives in rural Saskatchewan.

Transportation infrastructure is an important factor in location decisions for agricultural production and processing facilities.

Decentralization of decision-making for potential changes in the grain handling and transportation system can protect producers and maintain the stability of rural communities by enhancing local control over the grain collection rationalization process.

Public involvement in identifying and implementing alternatives to rail line abandonment can serve as a catalyst for community development initiatives. Economic development opportunities could be enhanced through improved co-ordination of transportation infrastructure expenditures. Business opportunities associated with the development of alternative grain collection services include the provision of goods and services to replace the loss of railway and grain elevator services and jobs.

The Saskatchewan Economic Diversification Council noted in its recent report on options for diversifying the provincial economy that "there is a requirement to mobilize and activate (community groups) to become far more proactive in the economic development process". The Council concluded that this can be achieved through initiatives that support local communities to establish their own economic goals.

IV THE EVOLUTION OF SASKATCHEWAN'S UNIQUE GRAIN HANDLING AND TRANSPORTATION SYSTEM

Major changes have occurred in the grain handling and transportation system during the past 20 years as a result of elevator consolidation, rail line abandonment, improvements in primary and terminal elevator operations, upgrading of rail and road infrastructure, modernization of the grain car fleet, and technological advancements in the trucking industry. In recent years, the introduction of alternative grain collection systems in Saskatchewan has increased the options available to producers to market their grain.

Co-ordinated planning of rail line abandonment, elevator closures, roadway improvements, and alternative grain collection services will be required to develop a grain transportation system that effectively meets producers' needs.

All stakeholders should be involved in the decision-making process for potential changes in the grain handling and transportation system.

These include producers, provincial and municipal governments, the federal government and federal agencies, grain companies and farm organizations, the railways, and other interested parties.

Policy initiatives that encourage co-ordinated grain transportation planning from the farm gate to export position must focus on the major factors responsible for change. These include:

- Profit optimization among the railway and grain companies
- Inefficiencies associated with rail operations on some grain-dependent branch lines
- Competitive strategies of the grain companies to protect and/or expand market share
- Limited opportunities for grain companies to increase revenues from the operation of primary elevators with high fixed costs
- Changes in vehicle weights and dimensions, which have increased the size of trucks hauling grain

1. Rail System

The existence of a number of low volume grain-dependent branch lines in Saskatchewan has increased the pressure on railways to provide reduced levels of service or abandon these lines. This encourages the elevator consolidation process and redirection of grain deliveries to other rail lines.

The railways are constrained in reducing costs on many grain-dependent branch lines, particularly those which were not upgraded under the federal Branch Line Rehabilitation Program. The railways must operate trains at reduced speeds or utilize partially loaded hopper cars and box cars on unrehabilitated branch lines, since they are not designed to carry fully loaded hopper cars at regular speeds.

The WGTA rate structure fully compensates the railways for the additional operating costs associated with these lines, in the total cost calculation. The railways receive approximately $90 million annually for grain-dependent branch lines, which are known as "line-related costs". About $60 million of these line-related variable costs are allocated to Saskatchewan branch lines.

Approximately 11,200 kilometres of Saskatchewan rail lines are protected from abandonment to the year 2000 by Privy Council Orders-in-Council (Orders). The federal government has rescinded Orders for selected Saskatchewan branch lines which originate little or no grain traffic.

The railways have proceeded with branch line abandonment to optimize their returns from the total rail system.

Approximately 2,000 kilometres of low volume grain-dependent branch lines have been abandoned by CN and CP Rail in Saskatchewan during the past 15 years. The rate of rail line abandonment has decreased since 1983.

It is estimated that an additional 1,500 kilometres of low volume branch lines could be abandoned in Saskatchewan due to elevator consolidation during the next 10 years.

More than 3,000 kilometres of Saskatchewan's low volume branch lines could be abandoned if recent federal proposals for branch line rationalization were adopted.

This would represent more than half the Saskatchewan grain-dependent branch line system of 5,840 kilometres (see Figure 3).

2. Primary Elevator System

The elevator consolidation strategies of grain companies are designed to reduce system operating costs in order to increase profit margins.

Grain companies have consolidated their elevator systems through:

- Closure of primary elevators
- Construction of high throughput elevators
- Upgrading of selected facilities

The elevator consolidation process is the most significant factor contributing to change in the grain handling and transportation system.

The number of primary elevators in Saskatchewan has declined from more than 2,500 in 1970 to about 850 today.

The major grain companies operating in Saskatchewan have reduced the number of elevators by about one-half since 1980, with facilities having an annual throughput capacity of less than 20,000 tonnes now being phased out of the system. Total system storage capacity has declined by about one-third since 1965 (see Figure 4).

Figure 3

SASKATCHEWAN
GRAIN - DEPENDENT BRANCH LINES
(1991 / 92 CROP YEAR)

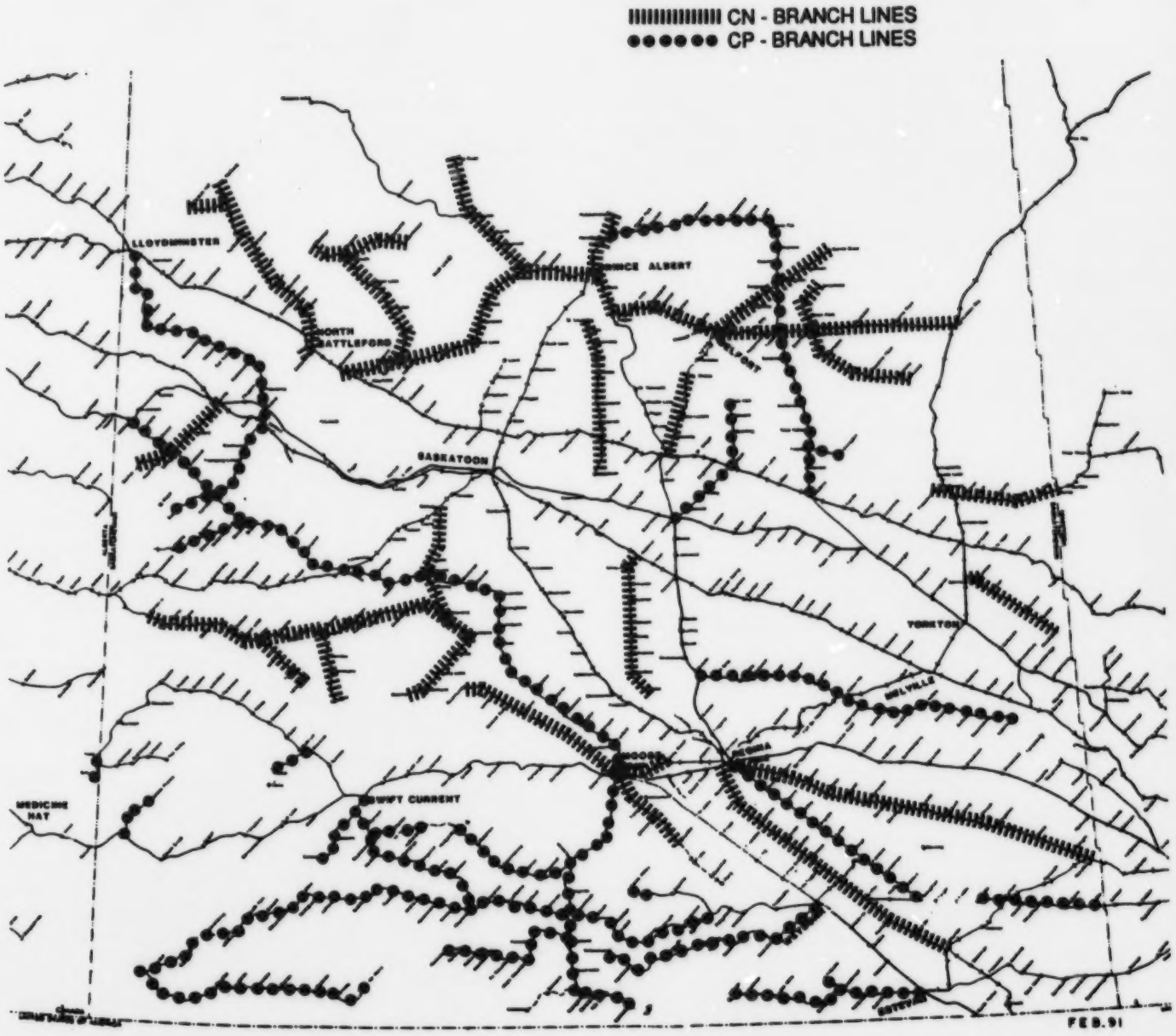
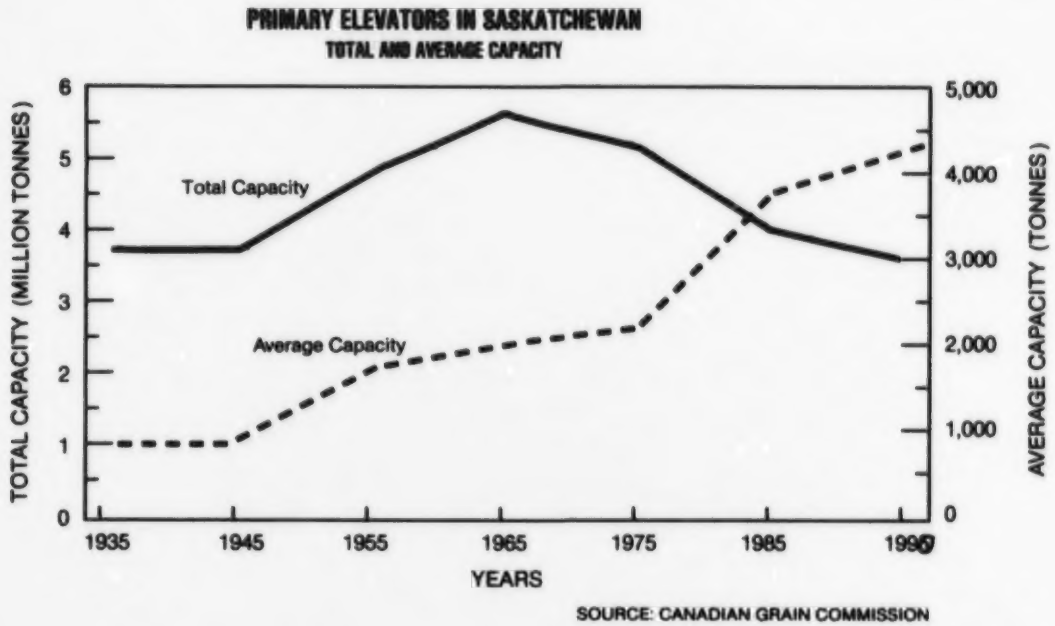


Figure 4



Consolidation of primary elevators in Saskatchewan is expected to continue during the next 10 years, with the number of elevators projected to decline to 400 - 600 by the year 2000. Elevator consolidation could occur more rapidly, depending on the direction of the economic factors controlling the grain industry, which could result in a reduction in the number of delivery points to less than 150 in Saskatchewan within 10 years.

The elevator consolidation process is closely linked to branch line rationalization. Elevator consolidation strategies are based on factors such as:

- The probability of the rail line operating long enough to recover the elevator investment. This depends on the projected volume of grain shipments and delivery points on the line, sufficient grain traffic to negotiate reduced freight rates, frequency of rail service, and line capacity and car loading limitations.
- The number of alternative delivery points accessible within a reasonable transport distance, and the life expectancy of competitors' facilities in the region.
- The productive capacity of the area within the elevator's radius of influence.

Elevator location decisions must balance the need to attract producers, who generally prefer to deliver grain to the closest delivery point, with the objective of maximizing annual throughput by siting elevators further apart.

V CRITERIA FOR RATIONALIZATION OF THE GRAIN HANDLING AND TRANSPORTATION SYSTEM

Rationalization of Saskatchewan grain-dependent branch lines and primary elevators during the 1990s could have significant economic and social implications for producers and rural communities.

New grain collection initiatives should balance the priority given to reduction in overall system costs with the need to maximize returns to producers and maintain the stability of rural communities.

The Saskatchewan Government believes that potential changes in the grain handling and transportation system should be guided by the following criteria, to ensure that the benefits from system efficiency improvements are equitably distributed:

a) Reduction in overall grain handling and transportation costs from the farm gate to export position.

b) Protection of rural communities through support for alternatives to rail line abandonment. Effective grain collection systems should be provided through appropriate investments in rail and road systems and new transportation technologies.

c) Consideration of regional differences in transportation infrastructure in the grain collection rationalization process, to facilitate convenient and affordable access for producers to delivery points.

d) Decentralization of decision-making for the grain collection rationalization process, to encourage greater public involvement in grain transportation planning.

e) Provision of appropriate compensation to producers and other system stakeholders negatively affected by abandonment of high cost branch lines.

f) Maximization of returns to producers.

g) Consistency with international trade rules.

The Saskatchewan Government is committed to developing an effective grain handling and transportation system based on these principles.

The uniqueness of our grain collection system and the diverse needs of Saskatchewan stakeholders will require innovative policy initiatives to satisfy these criteria, with or without fundamental changes in the WGTA.

VI IMPACT OF SYSTEM RATIONALIZATION ON ROADS

Rationalization of the grain handling and transportation system has increased grain hauling by truck, since delivery patterns have been affected by branch line abandonment and elevator consolidation. This has resulted in increased traffic on rural municipal roads and provincial roads, as a result of greater average haul distances and changes in the direction of travel.

Acceleration of the branch line rationalization process could lead to significant increases in grain hauling by farm and commercial truck, because many producers will have to utilize delivery points that are further away than those available to them now. It has been estimated that average haul distances in areas where branch line abandonment occurs could increase to 20 - 25 kilometres, which is considerably longer than the current average haul distance of 15 kilometres.

The producer's preference to deliver grain to the closest elevator is the factor that has delayed rationalization of the elevator system the most.

It is estimated that about 90 per cent of provincial grain production is delivered to the closest delivery point, with three-quarters of producers always using the closest delivery point. The percentage of grain delivered to the closest point could be increased if more primary elevator space and more frequent rail service were available.

Most producers will choose the next closest delivery point if they are required to change delivery patterns as a result of elevator closure. Roads not designed to handle large

volumes of truck traffic may have to be improved through upgrading or enhanced maintenance.

Usage of larger farm trucks and greater reliance on commercial trucking to haul grain longer distances will put more pressure on municipal and provincial rural roads as traffic volumes and gross vehicle weights increase.

Significant road damage could occur in areas where branch line abandonment and elevator closures generate major increases in truck volumes and changes in the direction of travel with new delivery patterns in effect. In addition, widespread usage of overweight vehicles for grain truck hauls could increase the damage to rural roads.

Peaking of grain deliveries can also affect municipal road conditions, because gravel grid roads and oil treated roads tend to be in a weakened condition during spring and other periods of extended rainfall.

1. ADI Limited Study on Road Impacts from Branch Line Abandonment

The impact of increased truck traffic on Saskatchewan rural municipal roads and thin asphalt surfaces as a result of branch line abandonment has been studied by ADI Limited, who were commissioned by Transport Canada in 1989 to determine the engineering and financial implications that prospective traffic changes would have on the province's road system.

The ADI study found that increased grain truck travel due to elevator consolidation and rail line closure would place affected rural roads under significant pressure, requiring increased maintenance of gravel surfaced roads and upgrading of many thin asphalt surfaces to a full structural pavement.

The study estimated that upgrading of selected roads would cost approximately $200,000 per kilometre. This would provide a subbase and base course of sufficient strength to handle the additional truck traffic volumes involved.

Incremental road maintenance costs generated by the 15 branch line closures examined by ADI ranged from $275,000 - $400,000 annually.

The cost of upgrading and maintaining rural municipal roads and provincial roads as a result of increased grain trucking in Saskatchewan could average up to $15 per tonne hauled per year, including financing and depreciation costs.

Rural municipalities and the provincial government do not have the financial resources to absorb annual road expenditures of this magnitude.

The ADI study concluded that co-ordinated planning of roadway improvements with elevator closures could mitigate some of the road impacts caused by increased grain truck traffic. In addition, the study recommended that alternatives to rail line abandonment and additional truck haul of grain to reduce rail branch line costs should be reviewed, including short-line railroads and road-rail vehicles.

The impact that acceleration of the branch line rationalization process would have on municipal and provincial roads throughout the province is difficult to estimate accurately based on the limited sample of rail lines examined in the ADI study. The study noted that detailed site specific analysis would be required to determine overall road impacts, because each area has distinctive characteristics which can significantly influence the extent of road impacts that would occur.

2. Financing Options for Road Upgrading and Maintenance

It is evident from the ADI study results that increases in grain truck traffic due to elevator closure and rail line abandonment would place many municipal and provincial roads under significant pressure. This could have major financial consequences for municipal and provincial governments, because of the limited resources available for additional road maintenance and upgrading.

The capability of many rural municipalities to finance incremental road maintenance and upgrading work is constrained, because their average annual road budgets for road maintenance and construction are only $360,000.

The municipal road network is administered by the 298 rural municipalities in the province, that are responsible for road construction and maintenance costs totalling $110 million annually. Saskatchewan Rural Development provides approximately $40 million in annual financial and technical assistance to rural municipalities for designated roads totalling 53,000 kilometres, which represent one-third of the municipal road network.

Incremental financing requirements for municipal and provincial roads could be considerable because upgrading options for thin asphalt surfaces are very limited. Upgrading to a full structural pavement would be required in many cases.

Roadway upgrading costs and incremental road maintenance costs would have to be financed through new revenue generation initiatives by different levels of government.

This could include one or more of the following options:

- Allocation of a portion of annual line-related costs from the abandonment of low volume branch lines to Saskatchewan road infrastructure improvements.
- Allocation of federal road-fuel taxes collected in Saskatchewan to rural road upgrading and maintenance.
- Increased provincial registration fees for farm grain trucks from the current average of $80 per vehicle.
- Dedicated provincial road-fuel tax to finance increased rural road upgrading and maintenance costs.
- Enhanced provincial funding for roadway capital expenditures through tax increases.
- Increased municipal property taxes to fund incremental rural municipal road upgrading and maintenance costs.
- Imposition of road maintenance cost levies by rural municipalities.

The current system of rural roads was developed in Saskatchewan to complement the extensive rail grain collection system that was constructed for the most part prior to 1930. It would not have been practical or cost-effective for municipal and provincial governments to develop a higher quality road system comprised of full structural pavements, since virtually all grain shipments from the province originated on the network of rail branch lines.

The Saskatchewan Government favours financing arrangements for road upgrading and enhanced maintenance that reallocate expenditures to reduce overall grain transportation costs on a regional basis.

Compensation for road impact costs associated with increased trucking of grain following the abandonment of rail lines must be provided through funding options that do not transfer costs from the federal government to provincial and municipal governments.

VII ALTERNATIVES TO ABANDONMENT OF LOW VOLUME BRANCH LINES

Opportunities exist to provide alternative grain collection service on selected grain-dependent branch lines. This could reduce road impacts associated with the grain collection rationalization process, and give producers access to competitive options to conventional rail service.

These include:

- Short-line railroads
- Off-line elevators
- Other grain collection options, including custom trucking and producer cars

1. Short-Line Railroads

Short-line railroads may provide a viable alternative to conventional rail service and trucking grain.

Investments in short-line railroads can be justified when their fixed and variable costs are less than those of conventional rail service or the commercial trucking rate to delivery points on operating rail lines, plus incremental road costs generated by increased grain truck traffic.

At present, there are two short-line railroads providing service on grain-dependent branch lines in Canada:

- Southern Rails Cooperative Ltd., with two branch lines totalling 75 kilometres in southern Saskatchewan.
- The Central Western Railway, which operates a 170 kilometre line in Alberta.

Section 60 of the Western Grain Transportation Act (WGTA) enables the Minister of Transport to enter into haulage agreements with short-line railroads for the movement of grain. Freight rates charged to the producer by short-line railroads must be consistent with those established under the WGTA.

Opportunities for development of short-line railroads for grain service are effectively constrained under existing branch line abandonment procedures, which are regulated by the National Transportation Agency. When prohibition orders on the abandonment of branch lines are removed, abandonment procedures are initiated under the provisions of the National Transportation Act. The National Transportation Agency has two options for dealing with abandonment initiatives under the Act:

a) Assessment of whether the line is currently economically viable.
b) If continued railway operation of the line is judged not to be viable, determination of whether it has the potential to be economically viable.

The National Transportation Agency invariably rules in favour of abandonment when viability cannot be demonstrated using this market-oriented approach.

Under the WGTA freight rate structure, low volume rail branch lines cannot be shown to be economically viable using these two criteria, because freight rates are based on average rail system costs. The cost of operating low volume branch lines proposed for abandonment by the railways will always be higher than the revenues they derive from these lines.

Revenue Generation for Short-Line Railroads

The producer currently provides a small portion of the revenue required to operate short-line railroads, through the WGTA freight rate structure. Allocation of the producer portion of the freight rate is not sufficient in itself to maintain the viability of short-line railroads.

Access to funding through Section 60 of the WGTA is required to make short-line railroads economically viable. The federal government provides financial assistance in this form to Southern Rails Cooperative Ltd., the Central Western Railway, and B.C. Rail. The federal government has not made a commitment to provide additional WGTA funds to other prospective short-line railroads on grain-dependent branch lines.

Successful operation of short-line railroads will require long-term commitments by the federal government to provide financial assistance for their continued operation.

This would create a more positive investment climate for short-line railroads than that provided by short-term contractual agreements, and reduce the risks for financial institutions and other prospective investors who could participate in the financing of these ventures.

The federal government recently announced that funding will be provided from the System Improvement Reserve (SIR) Fund to support the development of alternative transport services for producers affected by the potential abandonment of 3 low volume branch lines in Saskatchewan. These grain-dependent branch lines were included among the 9 rail lines for which abandonment prohibition orders were rescinded by the federal government in July, 1990.

The federal SIR Fund has been used in the past to subsidize producer trucking programs and off-line elevator operations, as compensation for abandonment of low volume branch lines in Saskatchewan. The SIR Fund does not recognize road impact costs associated with abandonment of these lines. The SIR Fund currently has no further funds available to finance additional transport options. Funding for existing alternatives will be terminated in the year 2000.

Proposed funding for short-line railroads under the SIR Fund is inadequate to sustain viable operations because funding is provided only for operating costs, without recognizing rail construction and maintenance costs.

This would result in the transfer of costs from the federal government to producers and/or the provincial government, who would be required to subsidize infrastructure costs on an ongoing basis.

2. Off-Line Elevators

The operation of off-line elevators may provide a viable grain collection option in some cases. This alternative enables producers to continue delivering grain to the same location after rail service has been withdrawn. Producer trucking costs and vehicle requirements remain unchanged for the movement of grain from farm gate to local elevator.

Commercial truck rates are dependent on the length of haul, volume moved, and scheduling. The province has a program enabling truck-dependent industries to operate vehicles that exceed legal vehicle weight and dimension regulations, in particular circumstances. Some industries have reduced trucking costs by up to one-third under this program, including incremental road costs. This program could be extended to include grain moved from off-line elevators, using similar eligibility criteria, in areas with road networks suitable for increased grain hauling by truck.

> **Assessment of the economic benefits of operating off-line elevators must balance the savings associated with rail line abandonment against the additional cost of trucking to the nearest transfer point, the road impact of the additional traffic, and the second elevation charges.**

The Grain Transportation Agency is encouraging the operation of off-line elevators by providing financial assistance to grain companies from the SIR Fund for up to three years to subsidize the movement of grain from primary elevator to the nearest rail transfer point, and half the costs associated with the second elevation. Funding under this option would be terminated in the year 2000.

The SIR Fund does not provide compensation to municipal and provincial governments for road construction and maintenance costs associated with increased grain truck traffic. The additional road costs associated with the operation of off-line elevators would be significant in some areas of the province.

Current funding arrangements for off-line elevators under the SIR Fund would transfer costs from the federal government to provincial and municipal governments, in the form of increased road expenditures. This approach to funding off-line elevator operations could result in higher total system costs for moving grain from farm gate to export position.

Municipal and provincial governments, producers, and other interested stakeholders should be involved in reviewing alternatives to branch line abandonment, including off-line elevators, to ensure that restructuring in the grain collection system balances efficiency and equity considerations.

3. Other Grain Collection Options

There are a number of other alternative grain collection systems that could reduce costs of the grain handling and transportation system. Two options that are currently being utilized are custom trucking and producer cars.

Custom Trucking

Several grain companies have introduced custom trucking initiatives to retain or increase market share, particularly in areas where primary elevator facilities have been closed. Under this option, the grain company negotiates a volume discount commercial truck rate with a local trucking company or other carrier to haul grain to its facilities. The producer arranges through the grain company to have his grain picked up at his farm by the carrier designated by the company.

The main advantage of custom trucking is a reduction in the producer's cost of hauling grain compared with regular commercial trucking. However, this option could result in an increase in road construction and maintenance costs for municipal and provincial road authorities, if grain hauling distances and truck volumes on certain roads increase.

Producer Cars

Producers have the option of loading producer cars to ship their grain when primary elevators are closed. Following applications by producers to the Canadian Grain Commission, the Grain Transportation Agency allocates cars directly to producers.

Producers are notified in advance of the estimated delivery date to a specified location. In most instances, the producer has until the next train run to complete loading. Bills of lading are forwarded to the railway by the producer, and the railway bills the producer

directly for his share of the freight rate. The producer is paid for the contents of the car, after grain is unloaded and graded at the terminal.

Cost-savings to producers associated with the usage of producer cars can be substantial, ranging from $800 - $1000 per car.

Alternatives to rail line abandonment should be examined to provide Saskatchewan producers with convenient and affordable access to delivery points.

Alternative grain collection services can also strengthen rural communities through the provision of local goods and services to replace the loss of railway and grain elevator services and jobs.

VIII REFORM OF THE GRAIN COLLECTION RATIONALIZATION PROCESS

Development of an effective mechanism to regulate branch line abandonment has been an important transportation policy issue for the past 15 years. The issue has been addressed by the Hall Commission (1977); a federal white paper, Freedom to Move (1985); federal studies such as the McDonough Inquiry into Railway Branch Lines (1985) and the Senior Grain Transportation Committee's High Cost Branch Lines Study (1988); and proposals for branch line rationalization by stakeholders in the grain handling and transportation system, including the four Western provinces (1988); Prairie Pools (1990); United Grain Growers (1990); and CP Rail (1990).

1. Hall Commission Report on Grain Handling and Transportation

The Hall Commission recommended that about 3,500 kilometres of rail lines, representing the highest cost grain-dependent branch lines in the Prairie provinces, be abandoned in the 1977-81 period.

The remaining grain-dependent branch lines, totalling about 6,600 kilometres, were classified in two categories:

- Rail lines that should be protected to the year 2000 as part of the basic rail system, totalling 2,900 kilometres.
- Rail lines that should continue to be operated based on demonstrated need, totalling 3,750 kilometres.

It was recommended that a federal agency, which was to be directly accessible to producers, be established to manage the rationalization process for the second category of rail lines.

2. Western Provinces' Proposal for Revision of the Rail Rationalization Process

The four Western provinces proposed changes in the branch line rationalization process in 1988 to increase its flexibility and make it more responsive to public input than the branch line abandonment provisions of the National Transportation Act, 1987.

Consultations would be held with groups interested in establishing alternative transportation services such as short-line railroads, road-railers, or off-line elevators, to determine whether lower cost options to conventional branch line service could be developed. Groups that could be negatively affected by branch line abandonment would also be consulted.

Alternative transportation services would be eligible for financial assistance similar to that provided to railways for the operation of grain-dependent branch lines. This could include compensation for affected stakeholders, including producers, rural municipalities, andprovincial governments. Compensation would be provided for road impacts generated as a result of branch line abandonment.

The federal government was not prepared to consider the Western provinces' proposal, on the grounds that current rail line abandonment procedures are working well and do not require changes at the present time.

3. Other Rail Rationalization Proposals

Many stakeholders in the grain handling and transportation system maintain that federal commitment to improving the branch line rationalization process is of fundamental importance in achieving more efficient and equitable transportation services, to support sustained growth of the Western agricultural economy.

Recent proposals by the Prairie Pools, United Grain Growers and CP Rail for increasing system efficiencies have stressed the need to examine options for streamlining the branch line rationalization process and compensate those adversely affected by change.

Differences of opinion exist on the most appropriate ways to achieve these objectives, particularly concerning the treatment of prohibition orders on high cost branch lines. However, there is general agreement that transitional funding derived from the savings obtained through system efficiency improvements should be provided for a specified period to compensate those negatively affected by branch line abandonment.

CP Rail and Prairie Pools have proposed that monies obtained by diverting line-related costs from abandoned branch lines to a transition fund could be administered using a mechanism similar to the SIR Fund to compensate affected parties. CP Rail has suggested that an independent body be established to administer the fund.

United Grain Growers has supported the position that the compensation program should be extended to include financial assistance for alternative transportation services.

4. High Cost Branch Lines Study

The issue of compensation for stakeholders affected by branch line abandonment and funding for alternative transportation services was addressed in more detail by the Senior Grain Transportation Committee's High Cost Branch Lines Study, which reviewed options for dealing with six low volume branch lines in Saskatchewan, Manitoba, and Alberta. The study attempted to determine who the winners and losers were under alternative grain transportation options for the six rail lines, by comparing annual incremental costs and benefits for all affected stakeholders. This included producers, grain companies, railways, and road authorities.

This method of analysis recognizes the need to examine changes that would occur in the entire grain handling and transportation system as a result of branch line abandonment. The study noted that "reducing the cost of the rail system without recognizing possible road or elevator impact may not result in any overall efficiency, but only a transfer of costs from one group to another".

In addition, the study recommended that there was a need to expand producer involvement in the branch line rationalization process "at the earliest possible stage".

IX PUBLIC INVOLVEMENT IN REGIONAL TRANSPORTATION PLANNING

Opportunities exist to decentralize decision-making for potential changes in the grain collection system, by involving producers and provincial and municipal governments directly in the identification and evaluation of options for rail line abandonment. This would facilitate the development of alternatives to conventional rail service on grain-dependent branch lines, beginning at the farm gate.

Establishment of a formal process to enable affected stakeholders to provide advice to municipal, provincial, and federal governments on alternative transportation services, road issues, and compensation options would encourage the development of appropriate initiatives based on regional needs and opportunities.

Public involvement initiatives can be structured to reflect differences in transportation infrastructure and administrative and fiscal arrangements in the Prairie provinces. This would enable affected stakeholders to participate in practical problem-solving for specific rail line abandonment proposals at the regional and/or provincial level.

Advisory groups including representatives from municipal government organizations and other stakeholders could be established in areas where rail line abandonment may occur.

These groups could review options for rail line abandonment, commission studies on alternative transportation services and road impacts, hold public meetings, and make recommendations to municipal and provincial governments concerning options for rationalizing the grain collection system on a regional basis.

Public meetings could be held in selected communities to present information on rail line abandonment issues and obtain feedback from affected stakeholders and other interested parties on grain collection options. This would ensure that all options are considered in the review of alternatives to branch line abandonment.

Advisory groups could develop regional grain transportation plans for areas that would be affected by rail line and elevator closures, with technical assistance from the Saskatchewan Government and consultants with expertise in grain transportation issues.

Grain collection options that meet the needs of stakeholders affected by branch line abandonment in a fair and equitable manner could be identified by the advisory groups. This would facilitate the development of cost-effective regional grain transportation systems through the co-ordination of roadway improvements and alternative grain collection services.

Recommendations from this planning process could be made to municipal and provincial governments and the private sector, to assist them in developing and maintaining rail and road infrastructure.

Recommendations could be communicated by the Saskatchewan Government to the federal Minister of Transport, prior to the issuing of rulings by the National Transportation Agency on the status of specific branch lines. This would provide the Minister with detailed information about potential options for branch line abandonment, including the cost of alternative transportation services, projected road impacts, and compensation requirements, which could be considered when branch line abandonment applications are reviewed.

Input from advisory groups can be accommodated without changes in the regulatory framework under the National Transportation Act. Alternatives to conventional rail service could be assessed on a regional basis prior to the commencement of branch line abandonment procedures by the National Transportation Agency, to assist the decision-making process.

The Saskatchewan Government believes that decisions on Saskatchewan grain transportation issues should be made in Saskatchewan.

Direct involvement of producers and provincial and municipal governments in grain transportation planning is required, to ensure that any changes are responsive to local needs and opportunities. Local decision-making will guarantee that the benefits from productivity improvements are passed on to Saskatchewan producers and their communities.

Funding of Regional Grain Transportation Services

Enhanced co-ordination of expenditures for rail and road systems at a regional level will require innovative funding mechanisms. The lack of co-ordination among different levels of government and the private sector in allocating transportation-related expenditures has contributed to system inefficiencies.

Current public expenditures on grain collection infrastructure are adequate to develop and maintain a modern and efficient grain transportation system. The major sources of funding for road and rail infrastructure include:

- Line-related costs from the WGTA
- Expenditures by provincial governments on road systems
- Expenditures by municipal governments on road systems

The development and modernization of regional grain transportation systems could be facilitated through the establishment of more cost-effective funding arrangements for allocating transportation infrastructure expenditures by different levels of government. This could include directing existing federal, provincial, and municipal funding for rail and road systems into regional pools of transport infrastructure investment, to finance grain collection initiatives in specific regions.

A funding mechanism based on the regional pool concept would enable the recommendations of advisory groups to be implemented. Greater co-ordination of roadway improvements, including expenditures on the provincial and municipal

road networks, and federal rail expenditures for line-related costs under the WGTA would facilitate the modernization of the grain collection system on a regional basis.

Appropriate cost-sharing and administrative arrangements could be negotiated by the federal, provincial, and municipal governments and the private sector. Long-term funding commitments would be required in many cases to implement regional transportation plans developed by advisory groups, in conjunction with different levels of government and the private sector.

Establishment of a regional funding framework for grain transportation systems is consistent with the recommendation of the Saskatchewan Economic Diversification Council that "government must increasingly redirect its support and assistance toward locally-led developments and people. This will support local communities to establish their own economic goals".

The Saskatchewan Government is prepared to work with the federal government, municipal governments, the private sector, producers, and other interested groups to develop innovative funding mechanisms for regional grain collection systems.

X RAIL FREIGHT RATES

The Saskatchewan Government supports retention of the distance-based WGTA rate structure, which is designed to allow equal rates for equal distances.

Provision of freight services based on average costs of the rail system enables all Saskatchewan producers to competitively market grain on world markets and maximize their returns.

The averaging process used in setting freight rates under the WGTA encourages the railways to reduce the operating costs on their highest cost branch lines. The distance-based rate setting mechanism provides all producers with access to delivery points on both low and high volume branch lines, through cross-subsidization of low volume lines by higher volume lines.

Disparities in freight rates between regions are limited by rates based on distance, rather than the actual cost of service on different train runs. Railways should be required to maintain pre-abandonment distances to protect existing grain freight rates, when abandonment of an intermediate portion of a branch line would increase distance. This would prevent increases in grain freight costs paid by Saskatchewan producers as a result of longer routings for grain shipments when rail lines are abandoned.

Certain sections of the WGTA are designed to protect producer freight rates from inflationary pressures and low grain prices.

The shipper share limitation adjustment and inflation-sharing provisions under the WGTA must be retained, to maximize returns to producers.

These provisions provide a measure of stability in producer returns, because the producer share of the freight rate increases by the inflationary increase on the total freight rate, to a maximum of 6 per cent annually. Average grain freight costs of Saskatchewan producers have still increased significantly with these measures in place, having risen 39 per cent during the 1984 - 1990 period.

These provisions under the WGTA must be retained, to maximize returns to producers.

Producers' share of the cost per tonne of shipping grain from the Prairies to export position will increase over time. The value of the Crow Benefit is fixed at $658.7 million annually, with adjustment for inflation, while grain export volumes are projected to trend upward in the long term. This will have the effect of reducing federal grain transport subsidies on a per tonne basis, while increasing producers' costs proportionately.

There should be no ceiling on grain export volumes eligible for transportation subsidies, to protect producer income and stabilize the agricultural economy.

XI CONCLUSIONS

1. The Saskatchewan Government is committed to maintaining an effective grain handling and transportation system from the farm gate to export position, to protect producers and support economic activity in rural communities.

Co-ordinated planning of rail and road networks on a regional basis would reduce overall grain transportation costs from farm to port.

2. New policy initiatives by the federal, provincial and municipal governments can facilitate the development of alternatives to rail line abandonment, through appropriate investments in rail and road systems and new grain collection and handling technologies.

Grain transportation policies should reflect the regional diversity of the agricultural economy and grain collection systems, to maximize returns to producers.

3. Decentralization of decision-making and greater public involvement in the grain collection rationalization process can ensure that grain transportation planning effectively meets the needs of producers and rural communities.

Advisory groups including representatives from municipal government organizations and other stakeholders could be established to facilitate co-ordinated planning of roadway improvements and alternative grain transportation services on a regional basis.

Input from advisory groups can be accommodated without changes in the regulatory framework under the National Transportation Act. Alternatives to conventional rail service could be assessed prior to the commencement of branch line abandonment procedures by the National Transportation Agency, to assist the decision-making process.

4. Innovative funding mechanisms will be required to implement the recommendations of advisory groups and modernize the grain collection system.

The Saskatchewan Government favours funding options that reallocate transportation infrastructure expenditures to reduce overall system costs, without transferring costs from the federal government to provincial and municipal governments.

This could include directing existing federal, provincial, and municipal funding for rail and road systems into regional pools of transport infrastructure investment, to finance grain collection initiatives in specific regions.

5. The Saskatchewan Government supports retention of the distance-based WGTA rate structure, which is designed to allow equal rates for equal distances. All producers should have access to convenient and affordable grain collection services to market their grain, similar to the pricing mechanisms for other essential rural services such as electricity and telephones.

Certain sections of the WGTA are designed to protect producer freight rates from inflationary pressures and low grain prices. The shipper share limitation adjustment and inflation-sharing arrangements under the WGTA help stabilize producer returns. These provisions must be retained, to maximize returns to producers.

There should also be no ceiling on grain export volumes eligible for transportation subsidies, to protect producer income and stabilize the rural economy.

6. The success of initiatives to modernize the grain handling and transportation system will depend on the willingness of the federal government, the railways, and the grain companies to share responsibility for decision-making with producers and provincial and municipal governments.

7. The Saskatchewan Government believes the following criteria should be used in reviewing grain transportation options, to ensure that potential changes are fair and equitable:

a) Reduction in overall grain handling and transportation costs from the farm gate to export position.

b) Protection of rural communities through support for alternatives to rail line abandonment. Effective grain collection systems should be provided through appropriate investments in rail and road systems and new technologies.

c) Consideration of regional differences in transportation infrastructure in the grain collection rationalization process, to facilitate convenient and affordable access for producers to delivery points.

d) Decentralization of decision-making for the grain collection rationalization process, to allow greater public involvement in grain transportation planning.

e) Provision of appropriate compensation to producers and other system stakeholders negatively affected by abandonment of low volume branch lines.

f) Maximization of returns to producers.

g) Consistency with international trade rules

8. The options identified in this paper are designed to foster dialogue and commitment to the development of a grain collection rationalization process based on decentralized decision-making.

The proposals by the Saskatchewan Government would transfer more of the benefits from system rationalization to producers and rural communities, without a corresponding increase in the costs to other stakeholders.

GRAIN TRANSPORTATION PARTNERSHIP provides a framework for greater public involvement in grain transportation planning. Local decision-making can effectively meet the needs of producers and rural communities by guaranteeing that the benefits of changes in grain collection systems are passed on to them. A more decentralized decision-making process based on a partnership of all stakeholders would protect rural Saskatchewan and contribute to sustained growth of the agricultural economy.